The Second Chinese Management Scholar Research Workshop, 19-27 July 2000

In this summer, a group of 41 management scholars from 30 major universities in the People’s Republic of China were selected to attend the Second Chinese Management Scholar Research Workshop on the Hong Kong University of Science and Technology (HKUST) campus. This workshop was jointly sponsored by HKUST and the Chinese University of Hong Kong (CUHK).

Dean Yuk Shee Chan of HKUST and Associate Dean Michael Hui of CUHK opened the workshop with remarks at the welcoming dinner. Dean Yuk Shee Chan said, “The positive feedback from the participants last year assured us that the workshop fits well with the overall mission of the school’s Area of Excellence in China Business and Management.”

Associate Dean Michael Hui was very pleased to meet and share his insights with the Chinese scholar, “It provides a good opportunity for the participants to explore new research methods and to facilitate collaboration among themselves and faculty members in Hong Kong.”

During the welcoming dinner, the Chinese scholars also had a chance to meet with three corporate advisors of the Hang Lung Center for Organizational Research, Herman Hu, Executive Director of Ryoden Holdings, David Pong, Managing Director of Shiu Wing Steel and Michael Tien, Chairman of G2000 (Apparel).

Among the 23 sessions scheduled in the 8 days of the workshop, eleven were lectures on key research designs. Seven were sample research presentations in which faculty members illustrated the application of a specific research method. There were also group work sessions in which the participants and faculty members discussed possible research ideas.

Professor Larry Farh was the program director and architect of the whole workshop design. Dr. Katherine Xin was leader for the group work sessions. Over a dozen faculty members from Hong Kong and Taiwan presented in the workshop, including Professors Larry Farh, Kenneth Law, David Li, JT Li, Anne Tsui, XT Wang, Changqi Wu and Katherine Xin from HKUST; Professors PP Fu, Chun Hui, CM Lau, Shigefumi Makino, Terence Tsai and CS Wong from CUHK; Professor Simon Lam from the University of Hong Kong; Professor Xie Jialin from City University of Hong Kong and Professor BS Cheng from National Taiwan University. Their contribution and dedication are critical for the success of the event.

Professor Anne Tsui, the Center Director remarked that the workshop was not a one-way or one-time training course, “The workshop underlined our on-going effort to promote and develop high quality management research in Mainland China. It is a platform for exchanging ideas, sharing of information and views, and preparing the groundwork for future collaborations.”

After 8 days program, the class representative Professor Chen Weizheng from Sichuan University said, “It’s a very intensive and high quality program, we have benefited a lot. What we have acquired is a foundation for us to do scientific research at an international standard.”

Funded Proposals on the theme of “Economic Reform and Enterprise Development in the PRC”

In December 1999, we made a joint call for research proposals by HKUST and CUHK. We received proposals on six important research areas: Corporate Strategy, Impact of WTO, Corporate Governance, Organizational Culture, Leadership and Human Resource Management. Among the submitted proposals, ten were selected for funding by a review committee. The total amount of funding for all the projects was HK$1,367,700. The projects started on 1 April 2000 and completion is expected within twelve to fifteen months. All of the principal investigators and co-principal investigators will meet at CUHK to report on the progress of their research in December 2000.
Globalization Ambition and Management Philosophy:
An Interview with Mr. TONG ZhiCheng, CEO of Pearl River Piano Group

Pearl River Piano Group (PRPG) was established in 1956 by bringing together six small piano shops in Guangzhou. The group produced only 13 pianos in 1956 (one was sold in Hong Kong). Until 1977, the company sold 1000 pianos a year and its brand name, Pearl River, was not known to most Chinese since piano builders in Shanghai and Beijing dominated the Chinese market.

In the early 1980s after China embarked on its open door policy and economic reforms, PRPG imported technology, facilities, and expatriate experts to increase its production capability. By the end of 1992, annual production reached 24,000 pianos. The early strategy was to enlarge PRPG's market share as much as possible. To achieve this goal, PRPG produced high-quality products at reasonable prices. As a state-owned enterprise, PRPG is accountable to the Guangzhou municipal government.

In late 1992, Mr. Tong ZhiCheng was appointed CEO. He had worked for PRPG for over 34 years. Mr. Tong's ambition was to make Pearl River Piano into an internationally known brand. In the eight years under Mr. Tong's leadership, PRPG has become well known in China and is making quick progress in the global market. From 1995-1998, PRPG pianos were awarded international prizes three times and national prizes 18 times. The most recent awards include an Advanced Enterprise of Good Quality and Economic Efficiency in 2000, the National May Day Medal of China in 1997, An Advanced Enterprise of Good Quality and Economic Efficiency in International Trade Field of China in 1996, the Leading Industry Enterprise of China award in 1996, and One of Superior Technology Innovation Enterprises of Guangdong Province. In addition, the PEARL RIVER trademark obtained the rank of Renowned Trademark of China. On February 24, 2000, Chinese President Jiang Zemin visited PRGP.

To date, PRPG has over 4000 employees and controls over 50 percent of the PRC market. Its products have been exported to more than 70 countries, including U.S.A., England, France and Germany and its piano export value accounts for 40 percent of China's exported pianos. Mr. Tong aspires to see PRPG as the number two producer of pianos globally. In this interview with Anne S. Tsui, Luan Yuan, Hailin Lan and Marshall Meyer, Mr. Tong discussed his ambitions and described how to achieve his globalization goal.

Anne S. Tsui, Newsletter Editor

Q: When did you join this company and when were you made CEO?

Tong: I joined Pearl River Piano when I was sixteen. I started as a junior craftsman. PRPG was a very small-scale company at that time, so I was able to try a variety of jobs. I worked as a repairman, and then I became the head of the repair department. Afterwards, I was promoted to the head of three others departments: overseas sales, domestic sales and supplies. After that, I was sent to Macau to set up a new factory. In 1991, I was sent back to the headquarters and was appointed CEO. The appointment was effective on 26 October 1992. This is the eighth year under my leadership.

Q: What were your missions and strategies for the company when you were promoted in late 1992?

Tong: PRPG had a good foundation when I was appointed to be CEO. My first goal was to improve operations. In the first three-year plan, the aims were to strengthen management, speed up development, beat the competition and gain market share. “Good relationship” is no longer sufficient for success in today's economy, where there is keen competition. Good management is essential. According to Deng Xiao Ping, entrepreneurs must be bold to speed up its development, especially for those who have the resources to do so. With a total sales volume of 24,000 pianos per year and a profit of RMB 15,060,000, PRPG was in a good position for this development. I proposed an increase in production of 10,000 pianos every year.
Q: What is your concept of globalization? How do you implement it?

Tong: Globalization means making our company known throughout the world. Firstly, we have to introduce our company to the world before we receive the world’s recognition. Almost every corporation hopes to have its own international brand name. Every company is seeking a way or a place to minimize its risk and maximize its return. For example, we are developing two markets, the China market and the overseas market. During the times of recession in the West, we can count on the China market and vice versa. We will not give up the China market even though we are looking forward to globalization. We insist on maintaining 60 percent of our total sales volume in the China market. With total sales volume of 100,000 pianos per year, I hope we will sell 60,000 to 65,000 instruments in the China market, and 35,000 to 40,000 in the overseas markets. We have sold 6,000-7,000 instruments in both the US and Europe already. The total is far more than 10,000 pianos already. For the China market, we have already attained our target of 60,000-70,000 instruments every year. It will not be a problem to reach this target.

Q: How are you going to achieve this goal? What’s your plan?

Tong: The most important is to develop talents. Other than that, we hope also to strengthen our technology. In addition to extensive training, we employ foreign experts in our factories. I also plan to send our employees overseas to learn from the experts there.

Q: When did you start employing experts from overseas?

Tong: We have been doing it since 1987. These are the top-tier experts in the world. They come from America, Germany, and Japan. The American experts understand American’s preferences and needs, and they know how to penetrate the American market, which is the biggest market in the world. With their opinions, we are able to produce the most popular piano for the Americans. Germany is famous for its technical skills. We learn from German experts how to make high-quality pianos. The Japanese can share their expertise on mass production systems. Since we aim for large-scale production, we combine the expertise from the Germans and the Japanese.

Q: Could you describe the focus of the second three-year plan?

Tong: It aimed to strengthen management, bring in advanced technology, break the sales record, and upgrade ourselves to an international standard. All our new piano designs moved into the market between 1996 and 1998. With them, we could now compete with the Koreans. Today, many Americans show appreciation for our products. They say that our pianos are competitive with some of the oldest brands in Asia. This proves that the second three-year plan has achieved a certain degree of success. Though we invested a lot, our debt relative to our assets is maintained at the low level of 42 percent.

Q: What gave you the confidence that you could achieve this goal?

Tong: I understood the process of production and saw the potential of PRPG. I had the confidence to achieve the goal if we could resolve some conflicts. In 1993, we did come out with an increase of 10,000 instruments, 34,000 pianos in total. We made a profit of RMB 30 million, an increase of 113 percent. The increase encouraged all of us and showed us that PRPG had potential. In 1994, we made a profit of RMB 45 million with a total sales volume of 45,000 instruments. The profit increased to RMB 55,000,000 with 55,000 pianos in 1995. In 1996, I decided to take stock and review our progress. The assessment aimed to upgrade the effectiveness of production management, quality management, materials management, and financial management. For example, we paid attention to the use of timber, the distribution of materials and the increase in quality standards. With these efforts, in 1996, our total profit reached RMB 65 million with an increase of RMB 10 million even without any increase in production. This was the beginning of our second three-year plan.

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Q: Now that you have successfully completed the second three-year plan, what is next?

Tong: The main themes of the third three-year plan are employee focus, training, and managing with efficiency while retaining product quality. We established a training foundation, which aims to encourage and promote education. The foundation would pay for whatever our employees choose to study. We aim to provide a channel for them to seek new knowledge. Knowledge is power; we would not have a good future without knowledge. It is really important to encourage our employees to learn and to acquire advanced technology. It will help us in our globalization effort.
Executive Column

Q: What about the idea of sending employees overseas, how does that work?

Tong: I plan to send eight to ten craftsmen to Germany for four years. We will invite the experts to train them up as highly skilled craftsmen. This way, we will have a solid base for further development of our business. The trainees are expected to build up a close relationship with the expert masters to learn their skills, similar to the way you train postgraduates. Each master could be responsible for two to three trainees. I will send another ten after the first batch returns. I will start this plan in 2001 when we set up a sales company in Europe. We will budget about RMB10 million for this training plan. This investment will more than pay for itself.

Q: Can you tell me your management philosophy? What kind of leadership is important for your company’s future development?

Tong: My management style is decentralization. I believe “The manager is who takes charge of it.” Everyone is responsible for his own job; no one can substitute. As leaders, we have to provide space for our employees to perform and to contribute. Good performance is not due only to good heroes. Supporting actors also play an important role. There is a Chinese saying, ‘The peony looks perfectly nice with green leaves’. Good managers are not substitutes for their subordinates, but they are there to motivate them. Every employee is an actor. We have to provide them opportunities and let them perform. This is a problem in many state-owned enterprises. Everything has to be approved and agreed by the management. My management style is different. I concern myself with results, not with methods or processes. Nowadays, there are many new management theories and methods. We have to open our minds to learning in order to find the most suitable style for our company. Both study and practice are important.

Q: What would PRPG’s prospects be without globalization?

Tong: The company could still survive under some constraints. It is impossible for an entrepreneur to stay at the same position permanently. In fact, an entrepreneur is an aggressor in the business world. For example, Coca-cola has achieved a great success, but it still keeps making progress. How can we stop at this stage? We are still developing. We have made some progress, but not yet a great success. I use Coca-cola as a successful example because it has attained a perfect situation. PRPG has laid the foundations of globalization, but we cannot claim our global outreach is well established yet. I guess it will take another three years to build a more solid foundation.

Q: Are these strategies and visions applicable to other piano companies?

Tong: Absolutely, if they are eager to learn. It totally depends on the person’s mentality, whether he is keen to learn or refuses to learn. We are eager to learn, so we keep moving forward.

Q: What is the main reason for the current success of PRPG?

Tong: Unity. We are all very clear that we have to continue our development for survival. We should do our best in every single task. We have a common goal. We are like a family. It is not a home if there is conflict among the members. All of us are working hard for globalization, good quality and building our brand name. We have a common ambition. Only high quality upgrades the brand name. Only through a brand name can we achieve globalization. We all put our hearts into it. The best pianos are made by the heart and not by machine.

Q: What are the major challenges to the future development of PRPG?

Tong: The major challenge is the competition on quality, on price and on talent. We must be prepared to meet these three challenges. We are working hard to improve on cost, quality and employees’ talents. Determination is the key to success. A US magazine reporter once asked me if I had encountered any difficulties. I said “No.” My position is to resolve difficulties and crises. I should always be prepared to handle any difficulty. It is not a position for enjoying life. We encounter difficulties at every step. I imagine the surprise if there were no problems along the way of development.

On Feb 24, 2000, Chinese President Jiang Zemin visited PRPG.
Q: Suppose a new general manager has an ambition to globalize his company. He is not in the same industry as you and he comes to seek your advice. What will you advise him?

Tong: I will tell him how to be the head of a company, how to unite employees and how to be the central character. Leadership is very important to unite the employees. How can a company be without a spiritual leader? Even on a football team, there should be a spiritual person to lead the group. Ideally, the spiritual person is the head of a company. To what extent can the person convince his subordinates and unite them to a common goal? For me, I try to create opportunities for my employees. Everyone is an actor, everyone desires to perform and contribute. Why should we suppress them? Why don’t we exploit their potential? I was a worker and I was a subordinate before. I know from experience that a good job is based on trust. As a leader, you must trust your subordinates and provide them with opportunities.

Q: Let me come back to cultural differences. You deal with many foreign experts and companies. Are there any obstacles in communication and understanding?

Tong: Yes, there are. Working overseas is a simple task for our employees, but not for Westerners. They regard working overseas as a sacrifice because they leave their homes and their families. That is why they expect very high salaries as compensation. Their tax rates are also comparatively higher than ours. These requests are acceptable to me when I understand them. We also have big differences in evaluating human rights. Understanding and appreciating these differences is a critical requirement for working effectively in a global setting.

Q: What is the role of PRPG in China and in the world? In PRPG, is there some sort of company spirit apart from producing high-quality pianos?

Tong: The quality of the human. We care about our employees and society. For example, we spend more than RMB10 million to sponsor many cultural activities every year, such as piano contests, music education and cultural education, etc. We invite many famous pianists to play in concerts. Last year, we sponsored National High School Piano Contest 1999, organized by the Education Ministry. The participants came from over 70 teaching colleges of China. We aim to upgrade the appreciation of culture in our society. Moreover, our employees’ living standards have been improved. This benefits our society as well. We encourage our employees to learn and be a benefit to the society. Our company does the same. We are a good company when we are successful and pay a lot of taxes to the government.

Q: Could you summarize your major guiding principles in leading PRPG?

Tong: First of all, be a role model and have passion for the business. I came from a family of three generations of piano technicians. Both my father and my grandfather were piano repairmen. I learned to play without going to a formal school. I love both the instrument and the sound it makes. I have a clear vision and communicate it clearly to all of the staff. I am firm in my ideals and I persist in pursuing my goals. I do not accept failure. No challenge is too big for me. I don’t blame others for mistakes. We share the responsibility.
We are pleased to present the highlights of research studies by three HLCOR faculty research associates.

**Leader Behaviors and Employee Turnover in PRC Firms**

Xiao Ping Chen, Assistant Professor, University of Washington

In the midst of mass layoff in state-owned enterprises, ironically losing key employees is one of the biggest problems faced by private enterprises in PRC. This research project explored how leader behaviors may influence, either positively or negatively, employee turnover in PRC firms. Two hundred employees from four organizations in PRC were asked to describe their immediate supervisors’ behaviors and report their own job satisfaction and organizational commitment. A total of ten leader behaviors were examined: performance-contingent reward or punishment, articulating a vision, high expectation of performance, providing a role model, providing individualized support and fostering collaboration, performance non-contingent reward/punishment, and intellectual stimulation. Employee turnover data were collected 10 months after the survey.

The results indicate that the leader’s non-contingent reward and punishment behaviors led to more employee turnover while the leader’s contingent reward behavior led to less employee turnover. Turnover was also lower when the leader served as a role model and expressed high expectation of performance from his subordinates. Intellectual stimulation, on the other hand, had a positive effect, i.e., increased turnover. It was found that the lower turnover in work groups with positive leader behavior (behavior that led to lower turnover) was due to higher organization commitment among the employees. These results suggest that leader behaviors play an important role in employee turnover. In order to prevent undesirable employee turnover, leaders need to (1) reward or punish employees on the basis of their performance, (2) be role models for their employees, and (3) have high expectations of employee performance.

**Justice in China**

Kenneth Law, Associate Professor, HKUST

Would Chinese (PRC) employees view justice in the organization the same as employees in the western world do? Would the outcomes of unfair justice perceptions by employees in China be the same as those in the western world? These have been our core research questions in this Chinese fairness perception project. Management research in the US identified three types of justice perceptions. The first is “procedural or system justice”. This deals with the employees’ perceptions of whether organizational rules and practices are fair. The second is “interactive justice”, which focuses on if supervisors are dealing with their subordinates in a fair way. The third is “distributive justice”, which refers to the employees’ perception of whether pay-related distributions across employees are fair. There is solid research evidence that interactive justice affects trust in supervisors and the quality of the leader-follower relationship. Distributive justice affects pay satisfaction of the employees and, in a less direct way, their commitment to the firm and turnover intention. Procedural justice perceptions affect organizational commitment by the employees. We asked a large sample of Chinese employees to recall unfair incidents they have encountered inside their organizations. After a series of well-controlled sorting and grouping exercises, we discovered a fourth fairness dimension, i.e., moral justice, in addition to procedural justice, interactive justice and distributive justice all common in the West. This moral justice dimension consists of perceptions that the leader would not show nepotism; would not make use of the position power for personal gains; would not take credit for subordinates’ success and shirk responsibilities; would not pursue personal vendettas against subordinates; and would try their best to follow the law in China. This finding is important because it shows the importance of a leader creating a respectable personal character in the mind of higher subordinates in addition to being a capable and productive leader. Chinese people care about the moral integrity of their supervisors. A leader needs to show a high moral standard in order to gain the respect, cooperation and commitment of their subordinates.
How family ownership and control corresponds to the structure of corporate boards and to the intercorporate network
Douglas Park, Assistant Professor, HKUST

In Western economies including the US and UK, ownership and control are separated in most large corporations. Investors own the firm while professional managers control the firm. In Hong Kong, however, ownership and control often coincide in a family. Thus, families both own and control large corporations in Hong Kong. It has been argued that ownership and control affect strategic decisions and corporate performance.

This project examined how family ownership and control corresponds to the structure of corporate boards and to the intercorporate network. After collecting data on the 125 largest publicly traded firms in Hong Kong for the period 1993 to 1998, we compared the results to evidence on US boards. Family members on the board who are not managers were considered inside directors. On average, Hong Kong corporate boards have a much lower percentage of outside directors than US boards do. Since families are often the largest shareholders, the families want to exercise influence over the corporation by occupying many board seats. Sometimes family members who are not involved in the business sit on the board. Yet, according to corporate governance activists, the interests of individual and institutional investors may not coincide with those of controlling families. Thus, it could be argued that unless the percentage of outside directors on Hong Kong’s corporate boards is increased, individual and institutional investors may not have their interests well represented.

Furthermore, the composition of individual corporate boards is related to the social organization of the economy. Both inside and outside directors often serve as directors of multiple firms. By virtue of these multiple directorships, companies are linked. These linkages are important because information about business strategies and opportunities is transmitted through this intercorporate network. Firms whose directors sit on many other corporate boards have an informational advantage. These well-connected firms can be considered the most central in the intercorporate network. While financial institutions are the most central firms in the US intercorporate network, financial institutions occupy a less central position in the Hong Kong intercorporate network. One reason is that US firms rely more heavily on capital markets and debt for expansion projects, while Hong Kong firms are able to rely more on internal capital. Building upon research in other countries, this project suggests that ownership and control affect the social organization of economies, which in turn influences economic performance.

Chinese Management Scholars (Part I)

We are pleased to take this opportunity to introduce a few scholars who are participating in the ten projects funded through the HKUST-CUHK partnership. We plan to feature other scholars in the future issues.

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Dr. Kan is the Dean of School of Business Management at Beijing University of Posts & Telecommunications (BUPT). He earned his PhD degree in Electrical Engineering from Stanford University in 1984. Since 1999, he has been a senior fellow of the China Academy of Telecommunication Research (CATR) and Ministry of Information Industries (MII). He is working on a project entitled “Potential impact of foreign direct investment on China’s telecommunications industry and its implications” with Dr. Xu Yan of HKUST. His research interests include E-commerce in China, the universal service policy in developing countries, China’s current tariff structure, and WTO – development of China’s telecom sector.
Dr. Peng is an Assistant Professor of Marketing at the Guanghua School of Management at Peking University. He obtained his PhD degree from the University of Hong Kong in 1998. He is working with Dr. Fu Ping Ping of CUHK on a project called "Characteristics and effects of executive leadership teams in Chinese high tech firms". His research interests include Consumer Behavior; Relationship Marketing; Cross-cultural Marketing; Team Building; Interpersonal Skills at Work; Trust.

Dr. Wu is an Associate Professor at the Business School of Nanjing University. She is working for a project called "The Influence of Ownership Structure and Governance Mechanisms on Firm Performance in the Chinese Context" with Dr. CM Lau and Dr. Dennis Fan from CUHK. Her research interests focus on corporate governance mechanisms (structure of equity, role and composition of the BODs, CEO duality etc.) during the period of economic transition in China.